"Adani Ports and Special Economic Zone Limited Q1 FY2020 Earnings Conference Call

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Moderator: Ladies and gentlemen good day and welcome to the Adani Ports and Special Economic Zone Limited Q1 FY2020 earnings conference call hosted by IIFL Securities Limited. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions, after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mr. Devesh Agarwal from IIFL Securities. Thank you and over to you Sir!

Devesh Agarwal: Thank you Nirav. Hello and good evening to everyone. On behalf of IIFL Securities, I welcome you all on the Q1 FY20 Earnings call of Adani Ports and SEZ.

Today, from the management, we have Karan Adani, the CEO and the Whole Time Director; and Deepak Maheshwari, the CFO and the Head of Strategy.

Now, I hand over call to Mr Karan Adani for his opening remarks, post which, we will open the floor for Q&A. Over to you, Sir!

Karan Adani: Thank you. Good evening, ladies and gentlemen. Welcome to the conference call to discuss Q1 FY2020 operational and financial performance of Adani Ports and SEZ Limited. In Q1 FY2020, we achieved throughput of 57 million metric ton of cargo at our ports, translating into a year-on-year cargo volume growth of 18%. This is against 8% cargo volume growth registered by All India Ports. Yet again, we have been able to register double-digit growth and outperform all India cargo volume growth.

Our market share in all India Cargo volume has increased by 100 basis points to 22%. Our market share in all India container volume continues to be at 35%. Our consistent gaining of market share reflects our resilience and ability to gain market share across our operating ports. This strong performance has resulted in our consolidated revenue to grow by 16%, and portfolio revenues to grow by 23%.

Logistics, after last year's consolidation, registered a growth of 12% in terms of revenue. Consolidated EBITDA grew by 16% to Rs.1843 Crores, port EBITDA grew by 24% to Rs.1709 Crores and Logistics EBITDA grew by 160% to Rs. 54 Crores.

We have been able to maintain our consolidated EBITDA margins at 66% and port EBITDA margins at 70%. Our profit before tax jumped by 48% to Rs.1362 Crores, and profit after tax grew by 46% to Rs.1011 Crores. Deepak will later on take you through the details of other key financial numbers.

Our focus on ESG continues. We have been continuously focusing on using cleaner energy and reducing energy consumption at our ports. Similarly, we have set definitive targets of reducing emission at our ports and also monitor water consumption and ensure optimum utilization of the same. Safety continues to be of paramount importance. Details of progress made in Q1 FY2020 are shared in the presentation send to you all.

Let me run through some of the cargo volumes. Cargo volumes growth of 18% in Q1 FY2020 was across all commodities we handled. While coal volumes grew by 38%, container volume grew by 8% and other bulk cargo, excluding coal, grew by 33%. Cargo composition continues to be balanced. While coal volume was 35% of our total cargo, container was 39% and crude plus other bulk cargo, excluding coal, constituted 26% of our total cargo volume.

During Q1 of FY2020, we handled 20 million tonnes of coal, a growth of 38% over last year. This included 3 million metric tonne of coking coal and 17 million tonne of thermal coal. We handled 5 million tonnes of coal for Adani Power at Mundra. Mundra port alone handled 10 million tonnes of coal.

We continue to gain market share in our container operations. In Q1 of FY2020 compared to all India port growth of 7%, we have registered a growth of 8% during Q1 of FY2020. Container growth at Mundra was subdued on account of realignment of few services. However, these are routine in nature, and we expect container volumes at Mundra to outperform all India cargo volume growth in FY2020.

Container volumes at Kattupalli continue to be strong. The port achieved 16% container volume growth, thus continuously gaining market share. Ennore Port continues to handle higher container volumes. In Q1 of FY2020 it handled 39000 TEUs.

Crude volumes saw a marginal decline of 8% at Mundra due to lower imports by Indian Oil Corporation. Other cargoes during the quarter grew by a healthy 33%. This is on account of our continued focus to diversify and handle various types of cargo at all our ports.

In Q1, we have signed three-year contract with HMEL to handle NAFTA at Mundra port. With this, Mundra Port has become one of the handful ports in India, which have liquid cargo carrying rakes handling facility.

In Q1 of FY2020, our long-term or sticky cargo has registered a growth of 23%. We handled 34 million tonne of cargo, which is a combination of long-term or sticky cargo. This insulates our business to a great extent. All operating ports, except Dahej, registered a double-digit growth, while Mundra, our flagship port, grew by 16%. Volume at Hazira grew by 20%, and 16% at Kattupalli. Our terminals at major ports, namely Tuna, Goa, Vizag and Ennore put together handled more than 4 million tonnes of cargo, thus registering a year-on-year growth of 35%.

As guided during our last conference call, Dhamra is back on growth track. In Q1 of FY2020, Dhamra Port handled its highest ever quarterly cargo volumes of 6.5 million metric tonnes. The port grew by 43%. The growth was led by all types of cargo. While coal grew by 16%, mineral grew by 95% and other bulk cargo grew by 98%. The port continues to handle various types of high-value cargo namely, gypsum, clinker, steel exports and ship to ship operations.

During last quarter, for the first time, it handled urea for our customers. Better availability of rakes running off rakes under the GPWIS team has helped in addressing evacuation issues. Rake availability in Q1 FY2020 increased significantly from an average of 12.47 rakes per day in Q1 of FY2019 to 18.35 rakes per day in Q1 FY2020.

Coming to update on owning wagons under GPWIS so far, we have progressed to obtain approval to operate 31 rakes. Currently, we are operating 4 rakes under the scheme, one for Rashmi and 3 rakes for Tata Steel from April 2019. One additional rake for Rashmi and two rakes for Tata Steel is expected to be commissioned into the circuit by September 2019 end. Hence, by Q2 FY2020, we will have seven rakes under GPWIS catering to cargo movement from Dhamra Port. We are also in discussion with external customers like SAIL, JSPL, Shyam Steel as well as internal customers like Adani Power, to deploy additional rake under the GPWIS scheme.

Coming to logistics operations, rail volumes handled by ALL registered a year-on-year growth of 27%. There has been significant improvement in Container rake availability for Adani Logistics Limited. ALL was operating 22 container rakes with acquisition of B2B Logistics completed this week, ALL is currently operating 36 rakes. In addition, another 12 container rakes are on order and expected to be received in phased manner by February 2020.

With improved container rake availability, rail volumes of ALL are said to increase significantly in FY2020. ALL is also operating four rakes under the GPWIS at Dhamra Port. During the quarter, ALL transported 275000 tonnes of cargo through these rakes. Five rakes under GPWIS are on order, of which three will be delivered in Q2 of FY2020, and the balance two are expected in Q4 of FY2020.

Thus Adani Logistics Limited is on track with the target of operating 60-plus rakes by end of FY2020. Adani Agri Logistics Limited, which we acquired in March 2019, handled 4.3 lakhs metric tonne of cargo in Q1 and is on track towards a target of 13 lakh metric tonne in FY2020. Currently, AALL has 8 silo units under implementation. AALL has also participated in tenders floated by FCI in seven locations in West Bengal.

Adani Agri Logistics Limited will also actively participate in upcoming tenders to grow its market share. As you are aware, Adani Logistics Limited had signed a definitive agreement to acquire 100% stake in Innovative B2B Logistics Solution Private Limited. The process of acquisition was completed during this week. With Logistics Park in Bengaluru, Nagpur, and warehouses in Kattupalli, Taloja, Mundra under development, Adani Logistics is on track towards the strategy of expanding logistics footprint across India, building multimodel logistics park, warehousing, rail network and distribution in order to be the leading integrated logistics service operator in India.

The company will also continue to explore opportunities for acquisition of similar nature in India.

Now let me run through and give you some updates on LPG and LNG business. Mundra LPG terminal, the terminal is ready for operation. We expect to handle 0.5 million tonnes of cargo for this terminal in FY2020. We also expect to earn Rs.20 Crores to Rs.25 Crores of royalty, plus marine income from this terminal in the current financial year. The Mundra LNG terminal is ready and expected to commence operation in FY2020 and handle 0.5 million tonne of cargo volume in the current financial year.

As you are aware, the asset is held by GSPC JV, with Adani Enterprises, and as such, we will earn 2 types of income from this asset. The first one is the port-led development income, and the second is income on account of royalty and providing marine services.

Till now, we have not booked any port led development income from Mundra LNG. We expect to get an income of Rs.700 Crores in FY2020 from this terminal for the port development income. Royalty and marine income in FY2020 from this terminal is expected to be Rs.50 Crores. Compared to Q1 of FY2020, cargo volumes in the current quarter is little soft. Looking at the current economic scenario, we expect cargo volumes to grow around 10% in FY2020, which would still be at least 1.5x of all India cargo volume growth, thus, our outperformance and gaining of market share will continue.

We expect Rs. 800 Crores to Rs. 1000 Crores of SEZ port led development income in FY2020. This includes income of Rs.125 Crores to Rs.150 Crores from lease rentals and upfront and upfront fee, and through sales lease of assets at Mundra and Dhamra. Our consolidated EBITDA is expected to grow in the range of Rs.1000 Crores to Rs.1200 Crores, which will further improve our cash flows. Notwithstanding current mood in the country, which we feel should improve in a couple of quarters, if not earlier, India is clearly going to enter an exciting phase. Our economy is on path to become Rs.5-trillion economy. We foresee enormous room for growth and development across key sectors. Our focus remains on tapping this growth.

At the same time, we have embarked on a journey to further strengthen our last mile activity to ports by adopting a dual strategy of improving efficiency and looking at inorganic growth. This strategy will help us to continue gain market share and take us closer to our vision of being a truly integrated service provider in the logistics space.

Now I request Deepak take you through the financial numbers.

Deepak Maheshwari: Thanks, Karan. Aided by the strong cargo volume growth, higher rail volumes, we have reported yet another quarter of strong performance. Consolidated revenue and consolidated EBITDA during the period grew by 16% to Rs.2794 Crores and Rs.1843 Crores, respectively. We were able to maintain the consolidated EBITDA margin of 66%. Similarly, port revenue grew by 23% to Rs.2425 Crores, and port EBITDA grew by 24% to Rs. 1,709 Crores.

Port EBITDA margins continue to be at 70%. This performance has resulted in the profit before tax increasing to Rs.1362 Crores and PAT to Rs.1011 Crores. During this quarter, we have recorded an FX gain of Rs. 3 Crores compared to the loss of Rs. 383 Crores in Q1 of FY2019 on account of mark-to-market of foreign debt.

During the previous financial year, Goa terminal had received a demand from Mormugao Port Trust for the payment of revenue share on deemed storage charges of Rs.72.62 Crores. The management had considered it prudent to make the provision to the extent of the demand raised. The company has further received claim for deemed storage of Rs.58.60 Crores, which we have provided for in this quarter. The company has initiated the process of getting the investment classified as a stressed project in accordance with the guidelines issued by the Ministry of Shipping, and arbitration has been initiated to resolve this matter.

A quick update on the recent acquisition; if you recollect, we had informed of our first international foray for setting up Container Terminals at Myanmar. We had shared a detailed presentation on May 23, 2019. We are happy to confirm and inform the market that the project is on track, and we have received all approvals for the commencement of construction. Integration of AALL into ALL has been completed smoothly. The process of acquisition of B2B Logistics, as communicated to the market in March 2019, was completed during the early part of this week. This acquisition will give Adani Logistics Limited access to operate container rake for the eastern and southern ports of India and will increase the overall reach of the logistics business in APSEZ.

And you are probably aware recently we did USD $2 denominated bond issuances. Both the issuances were received with overwhelming response from the international institutional investors, resulting in heavy oversubscription. The first issue of USD 750 million for a 10-year bond, with a coupon rate of 4.375 will be used largely for capital expenditure as well as other uses as allowed by the Reserve Bank of India under the TCB guidelines. The second issue of USD $650 million with a coupon rate of 3.375 was carried out as a liability management exercise to refinance existing debt due in July 2020. The successful issuance is a testimony of the continued trust of investors in APSEZ strong financials. As touched upon by Karan earlier, we will continue to look at the right kind of acquisition opportunities in the ports and logistics space in India. We can use the strength of our balance sheet to acquire value-accretive assets. Our efforts will continue to be to improve the return on capital employed of our businesses, where we have already invested.

With this, we open the line for question and answers.

Moderator: Thank you. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Venugopal Garre from Bernstein. Please go ahead.

Venugopal Garre: Thanks for the opportunity. I just want to quickly check, in terms of the mix of the business, this quarter has been interesting because we have seen a lot bulk growth versus container, which is in single, high single digits. Now, going forward, is that sort of a trend that you see this year, where bulk would probably outperform Container? More so, I wanted to also touch upon the Mundra side. You mentioned about some normal realignments and readjustments, if you could elaborate on that?

Karan Adani: I think, the way right now Q2 is also looking, I think we are seeing a similar trend that growth is driven more by bulk rather than container. I think container, we will see a similar growth rate as what we saw in Q1. In terms of Mundra, let me put it this way there was a consolidation of services. So we saw basically vessel upsizing, and because of that, some of the services had to stop. We saw a little bit of shortfall in cargo with that. The second, where we saw a little bit of shortfall was on the transshipment volume at Mundra, which we are confident that it will pickup again in Q2 and Q3.

Venugopal Garre: Just a quick question on the same thing, EBITDA growth for Mundra, even after adjustment for that one payment on that cyclone thing roughly around 5% versus what I calculated. So this is more attributed to mix. Would that be the right way to look at it for Mundra specifically?

Karan Adani: Yes, that is the correct way of looking at it.

Venugopal Garre: Okay. Last question, finance cost Q-Q has moved up substantially. Is it more to do with these bond issuances costs around that?

Deepak Maheshwari: Some of it is attributed to that, but as you would recall that when we had met and when we discussed the March results we had mentioned that we have carried certain extra amount of liquidity because we were looking at completing a few transactions. That additional liquidity that we carried was carried through for most of most of the quarter. In fact, some of the transactions that we had thought about were only completed. As we just mentioned, the B2B as well as Myanmar has been completed only in this particular quarter. So we did carry the additional liquidity for most of the quarter, and hence, when you reflect and compare that with the Q4 number, you will see that this slightly higher as compared to Q4 because we have carried the liquidity for a larger part of the quarter than as we had carried in Q4.

Venugopal Garre: But if I am assuming that roughly a Rs. 50 Crores increase Q-Q in finance cost is because of the higher liquidity you carry. So correspondingly, the other income increase Rs. 10 Crores is, frankly, because of the lower interest rate on the extra. That is the way to look at it, right now?

Karan Adani: That is correct.

Venugopal Garre: Thanks a lot.

Moderator: Thank you. Next question is from the Sumit Kishor from JPMorgan. Please go ahead.

Sumit Kishor: My first question is on the Logistics business, where we have seen about 12% revenue growth. With the deconsolidation of ALL possibly expecting slightly higher growth here in revenues so could you please speak about that? And what contribution ALL made to revenue and EBITDA this time?

Karan Adani: So I think the revenue growth is little less than the volume growth is big mainly because we were running shorter distances and that is the reason why the freight revenue is lower than the volume, volume growth that we saw. I think if you see our EBITDA margins, the EBITDA margins have improved significantly by almost 160% and if you see from ALL perspective? Just give you a breakup of ALL versus AALL. So ALL revenue has grown by 20% from 154 from Rs. 123 Crores to Rs.154 Crores, and AALL has grown from Rs.9 Crores to Rs.28 Crores. But the Rs.9 Crores, it is not giving you the right picture because it is only accounted for the last few days, which hit our balance sheet.

Sumit Kishor: So this sort of EBITDA margin profile would be sustainable?

Karan Adani: Yes, it will be because if you see, we have been able to reduce our empty running as well as, as we had said that AALL revenue is all on take-or-pay basis. So that has a much higher EBITDA margin. So if you see ALL EBITDA margin has increased from 10% to 11% to almost 16%, and AALL continues to run at 70% EBITDA margin.

Sumit Kishor: Karan, my second question is sharing about overall macro slowdown here. So sometimes, there is a certain EXIM environment we operate in but if I look at your container business growth barring possibly CT2, CT3, I think there is still very strong growth across the board in containers. So Mundra, while it is 3%, it is very mixed across various terminals. So what exactly has happened in CT2 and CT3? Is there any impact of slowdown, that you see relative to these?

Karan Adani: CT3, the volume is mainly because we dropped in terms of our transshipment volumes. If you see, CT3 we had a negative growth, and that is mainly we lost out on the transshipment volume. CT2, we are running at almost full capacity. So plus/minus, it is mainly an operational issue. We have not lost out in terms of volume over there in CT2. In CT2, you will see volume picking up from October onwards, when we commission our T2 terminal, which is the expansion of CT2. So with that, from October onwards, you will see volume picking up in CT2.

I think, overall, we are seeing few signs of slowdown and that is why we are seeing that our growth, this year, will be in the range of 10% rather than the 10% to 12% as what we had guided at the start of the year. So far, I think we will have to take a call in October depending on how depending on if there are any changes in the policies, which will revive the economy. But the way it is looking right now, we are looking at a 10% growth.

Sumit Kishor: And CT2 expansion is what size?

Karan Adani: It is 0.5 million TEUs. Phase 1 is 0.5 million and then eventually, it will move to 1.2 million.

Sumit Kishor: Just one observation on slide #20, if I add the incremental cargo that you are expecting from coal, dry cargo, liquid crude, LNG, LPG, you said about 1 million tonne in container, 10 million tonnes, that is an incremental about 25 million tonnes, which actually places you closer to 12% growth then what was sentenced below that seems to be?

Karan Adani: Yes, but as I said, that obviously, we have to see how the economy. So far, what we see is we are seeing at a 10%-ish.

Deepak Maheshwari: Just to supplement what Karan just mentioned, so these are some specific changes in the cargo profile or increments in the cargo that we are seeing, and we are working towards very aggressively and this is just to provide more granularity as to where the growth is likely to come from. It just does not mean that each one of those numbers will be hit. But on an aggregate that is where we expect us to be.

Sumit Kishor: Thanks a lot. Wish you all the best.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi group. Please go ahead.

Atul Tiwari: Thanks a lot. Congrats on great operational numbers. Sir, what was the gross debt number and the cash on the balance sheet post these two U.S. dollar bond issuance?

Deepak Maheshwari: The $650 million bond issuance, which is the second one that is largely, that is not largely, that is only for refinancing. As I mentioned, it is a liability management exercise. The entire $650 million is being used for refinancing our bonds, which were due next year. So it is, overall, a part of the as I said, liability management exercise, just increasing the maturity profile that we have. The remaining $750 million will be on our books and it will be used for RBI-approved, purposes, which largely include any of the capital expenditure that we have to incur during the course of this year and so, as we progress, we'll keep dipping into it and using it. Otherwise, it will all be sitting on our balance sheet as cash.

Atul Tiwari: What is the gross debt number at least as of the quarter end?

Karan Adani: The gross debt number at the end of March was Rs.27000 Crores.

Atul Tiwari: Number of June?

Karan Adani: As you know that during the quarterly results, we only discuss the P&L numbers, but our net debt-to-EBITDA as we have always maintained, will continue to in the range of 3x to3.5x.

Atul Tiwari: Thank you.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital Private Limited. Please go ahead.

Vibhor Singhal: Thanks a lot. Thanks for taking my question. So Karan, just wanted to check, you mentioned that you are seeing signs of slow down and that is probably what has prompted us to expect around

10% kind of a growth, so just 2 parts to that. So one is, if you could just elaborate a little bit more on what kind of signs you are seeing, specifically we just kind of apart from the economy, of course, slowing down, any basically slow down in the kind of inquiries or the deal signings or the overall cargo volume that we are seeing, which is leading you to say that, okay, yes, we are seeing that kind of a slowdown? Secondly, the 10% kind of growth that we are expecting is it just fallout of the economic slowdown as well or do you expect some maybe drop in cargo from the levels that we did in this quarter per se?

Karan Adani: Mainly, to be honest, we are seeing this 10% growth is mainly because we are seeing the overall volume and overall trade, not just for us, but pan India the trade and kind of growth that we are seeing. Based on that, we are confident of reaching around 10%. I think in terms of, SEZ, we are still getting inquiries over there, but we are not seeing from inquiry to conversion. Conversion rates are little slower than what we expected. Sorry, what was your second question?

Vibhor Singhal: So my question was basically, what are the kinds of economic slowdown signals that you are seeing which are probably looking to do this? The other part was, do we expect the cargo to drop from the quarterly level, the 57 million tonnes that we did this quarter? Could we expect maybe a drop in that number that is probably leading us to that kind of a number?

Deepak Maheshwari: Just to add to supplement what Karan said. I think you would see that this particular quarter, we have done around 57 MMT. We expect that the overall growth to be in the range of around 10% because we are supplemented by a number of drivers. If you would see that Dhamra is performing much better in this particular quarter and is likely to perform better as the year progresses, thereby providing certain impetus to the growth that we typically would have had. So it is a mix of also not just seeing as to how the economy is doing, but also to see as to what is the potential of the economic hinterland, and whether we were servicing it adequately or whether we were constrained in servicing that particular hinterland adequately. So even though some of the growth may be reduced because of our own ability and because of the unique position that we have of our assets, we may be able to do a much better increase in the market share as compared to earlier and more specifically, we do not really expect the numbers to be any different in the going quarters at this point of time, the basis with where we are seeing the economy to be.

Vibhor Singhal: Sir, that is fair enough. Just one last question from my side what is the status on the Vizhinjam Port and what is the kind of timeline that we are looking for its commencing the operations here?

Karan Adani: For Phase 1, we are expecting by the end of 2020 or early 2021, commissioning of Phase 1.

Vibhor Singhal: So that remains the same as we were. So there is no delay as per se?

Karan Adani: No. No, there is no delay.

Vibhor Singhal: That is all from my side. Thanks a lot for answering my questions. Wish you all the best.

Moderator: Thank you. The next question is from the line of Paras Jain from HSBC. Please go ahead.

Paras Jain: Thanks, Karan and Deepak, I probably got one question for Karan and few for Deepak, if I may ask Karan first. What we have seen that revenue growth has outpaced the volume growth despite the fact that traditional coal did much better than probably higher-yielding container. Have you seen across the board an increase in the yield or it was more, as you mentioned, that transshipments drop-off has significantly improved the yield from container? On a like-for-like basis, does it mean that your margin would have been higher? And maybe if you can respond to that, then I can go to Deepak?

Karan Adani: Sure. So I think, Paras it is a mix of both. We have increased our pricing by almost 3% to 3.5% on per-tonne basis. Second is increase is in Dhamra we have handled more high-paying cargo, which has contributed to that growth as well and in terms of transshipment, yes, the portion of transshipment that we handled that has brought down the revenue. I mean that has helped in increasing the revenue per tonne but on EBITDA basis, it did not matter too much.

Paras Jain: Deepak, with respect to the interest, and it has been asked also, but given the kind of interest environment that we are witnessing and some of your refinancing at the rate which are lower than 4%. I mean look three years out, do you see your average borrowing cost to decline by, I do not know, I mean if I throw a number, 100 basis points or you think that your current interest rate is pretty much the trajectory that you will foresee despite access to the different form of funding?

Deepak Maheshwari: I think it is very difficult one to answer more specifically on the coupons that we might end up because a large portion, as you will clearly appreciate, is that as we do our dollar borrowings, it is linked to how the U.S. treasuries also perform and so we have more control from a credit standpoint as to what the credit spreads are, likely to be and for the five-year bond that we recently did, we breached through the fair value, and we were able to do it at five-year treasury plus 150 basis points. Now where the five-year treasury is going to be, it is really difficult and difficult for us to predict. But it is fair to say that we refinanced a 3.5% coupon with a 3.375%, so largely on a similar ballpark. As we see going into the near future, at least, we see that treasury rates have clearly come off and they are likely to be in that particular range. We also see that the rupee rates have come off, and they are likely to continue to be in that particular range, at least for the next six to 12 months. So overall, we are going into an environment which has lower interest rates. So yes, the benchmark rate should be lower. The credit spreads do not necessarily come down at the same pace or at the same time and sometimes, the spreads might widen because people might be looking for an absolute yield. So on the ballpark I think we will be around the same numbers. But there are quite a few market factors to play with.

Paras Jain: You are happy with your dollar versus INR exposure in terms of debt?

Deepak Maheshwari: Yes. As we have always indicated that we do have this natural hedge and we look at a five-year period of our dollar inflows, and we match that with the five-year liabilities that we have. So yes, we continue to work within that same paradigm.

Paras Jain: Yes. And then one last question before I pass it on to the next and maybe for both of you. When I look at your FY2020 capex and like a large part of that is going on expansionary capex. Can you highlight like given the utilizing level that you have in your existing portfolio over the next two to three years, which ports will cater to the most of those expansionary capex?

Deepak Maheshwari: Most of that will go between Dhamra, Kattupalli and Vizhinjam. That is where the majority of the capex will go and that will be predominantly into diversifying each of those ports.

Karan Adani: Yes. That is absolutely right. I think just to add a bit to it. That when we are looking at our capex programs, you typically find that our capex is either for an existing port, it will either be for a particular cargo type, which already has a high level of utilization. So for instance, the capex will go into Mundra for CT2 for a terminal where it is already running high levels of utilization or it would be for adding another cargo type into an existing port. So for instance, in Kattupalli, you would find the expansion is going into liquid.

Paras Jain: Thank you so much. Thank you.

Moderator: Thank you. The next question is from the line of Sriram Kumar from Spark Capital. Please go ahead.

Sriram Kumar: Thanks for the opportunity. My first question will be what will be the harbor service income and EBITDA for this quarter?

Karan Adani: Ask your second question as well while we get the details.

Sriram Kumar: Sir, in Dhamra Port, if you look at the volumes, it has increased, but our realization per tonne has decreased, while EBITDA margin has increased. So can you please elaborate on the nature of cargo that has been contributing to the EBITDA margin increase?

Karan Adani: If you were to look at harbor, it would be at Page 41, you will see we have provided the operating revenues as well as the EBITDA for harbor. Rs.334 Crores is the revenue and Rs.306 Crores is the EBITDA for the quarter with EBITDA margin of 92%.

Sriram Kumar: Sir, so the second question is from Dhamra. So the volumes have increased, but realization per tonne has decreased while at the same time, EBITDA margin has increased. So what is the nature of cargo that has been handled in Dhamra?

Deepak Maheshwari: See, Dhamra is predominantly for coal imports, both thermal and coking coal, and exports is mainly iron ore.

Karan Adani: If you were to do the right compare for Dhamra, Dhamra last year in Q1 also had an additional dredging cost. So, if you were to adjust it for that, then you will find that the number for the dredging cost last was Rs.42 Crores in Q1 FY2019 and Rs.29 Crores in this quarter so the difference of around Rs.13-odd Crores. So if you were to use that as an adjustment, you would find that the numbers would change by around 6% or 7%, and then the gap would not be as much as 14% that you are seeing right now and we are handling more mechanization as well, which is reducing the cost and increasing the EBITDA.

Sriram Kumar: So going forward, it would be the EBITDA that we can look for Dhamra? 60%, 63%?

Deepak Maheshwari: We are targeting on a long-term basis anything between 65% and 68%.

Sriram Kumar: Sir, on Dahej, volumes shift to Hazira, can you please explain what kind of volumes that has shifted from Dahej?

Karan Adani: That is mainly coal, thermal coal, which is moving by road.

Sriram Kumar: Moving by road. So on the Mundra transshipment, sir, you said transshipment bound to Far East, I mean towards China and so.

Karan Adani: No. That is mainly Middle East transshipment, Middle East and East Africa transshipment.

Sriram Kumar: Sorry, Sir. Middle East and?

Karan Adani: East Africa.

Sriram Kumar: East Africa. Okay. Sir, in terms of capex and acquisition obviously, next year, we know what would be the kind of capex you are doing. So post that, what will be the acquisition we are looking at and the capex we are looking at for, let us say, FY 2020 because they are raising around 700 million yearly so any thoughts on that?

Karan Adani: Just on the acquisition side, it is always very difficult for us to say as to what we would specifically be looking or considering and we will clearly come out once we have identified something. As you would see in the past, we have come up with timely announcements for all the acquisitions and investments that we have made. So we will follow a similar behavior and pattern for that as well. As we have indicated in our presentations, typically, we have around Rs.2000 Crores to Rs.2500 Crores as capex, which is for our existing portfolio of ports. This year and next year, the numbers will be different because we are going to be investing in Myanmar and as we have indicated earlier, the total capex for Myanmar is in the range of around $275 million to $290 million. And hence, we just have to split that number broadly across both the years, which would mean that around Rs.1000-odd Crores per annum for the next two years, which is relating to Myanmar.

Sriram Kumar: Sir, on the asset side, are we looking at more on logistics side or the port side?

Karan Adani: We are looking at all assets, which if they come at right price, we are happy to look at that.

Sriram Kumar: Sir and my final question would be on the marine income and royalty income. Sir, can you please give us per tonne for LNG and LPG terminal was to be the marine income separately and royalty income separately.

Karan Adani: Can we give it to you separately?

Sriram Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities Limited. Please go ahead.

Aditya Mongia: Thanks for the opportunity. Congratulations for the very strong set of numbers on the port business front. I had a few questions. The first one was on this dollar loan that you have taken this time around, the $750 million. Do you envisage the scope of raising further dollar denominated borrowings from hereon, given the failure asset liability mismatch exercise that you have done?

Karan Adani: At this point of time, it is very difficult for us to comment on that. There is a lot of relaxation, which has come through in the ECB guidelines, which we continue to evaluate. Prior to the new modifications in the ECB guidelines, we would have to have specific capex for which dollar loans could be raised. The ECB guidelines now do provide raising up to seven years' money if it were to be used for refinancing of rupee debt. So there are certain flexibilities which have come through because of changes in the regulatory framework. We continue to evaluate that. At this point of time, we really have not made any firm decisions about any of these financing plans.

Aditya Mongia: The second question which I had was related to Dhamra. Now obviously, Dhamra has seen some investments happening in the past and more are in store. Could you give us a sense of where utilization levels are at this point of time and which cargo parcels would require capex from hereon?

Karan Adani: So right now we are still in the midst of completing our Phase 2 expansion. Our Phase 2 expansion was taking our capacity from 25 million to 50 million tonnes. So far, by November or December of this year, we will look at completing that Phase 2 expansion and then that is where we are looking at sort of putting our capex and the second part where the capex is going in Dhamra is the construction of the LNG jetty, which the port has to do. Apart from that, we do not foresee further capex, at least for a period of six to seven months till we bring the volume up to the level of 40 million tonnes.

Aditya Mongia: Got that. So the next question which I had was more related to the kind of funding which has happened to related party use in the last year. The annual report suggests that the company has incrementally put in money in related parties under the head Other Financial and Nonfinancial Assets. Could you give us some more color as to where or to what use this money is going to be put in and there would be further increases in the quantum in FY2020?

Deepak Maheshwari: I would think that what you're alluding to is on the page, which is relating to the related party transactions and this is something that we mentioned during the call when we had for the annual results that during the course of last year, further investments were made in the Mundra LPG asset by the promoter entities because of this, Mundra LPG no longer continue to be a part of APSEZ and as a part of that particular transaction, the construction costs which was incurred by APSEZ that had to be repaid back to APSEZ along with the lease rentals and the port development income. We had mentioned as well at the end of the annual results that the construction costs have already been paid by the promoter entities, thereby resulting in a reduction in the related party transactions. It was for a specific transaction, which we have highlighted and we have discussed and that is already getting unbound. It is unbound already. Sorry.

Aditya Mongia: Got that. So basically, that was a point in time kind of transaction which sort of happened regarding this change in structure and it has been…

Deepak Maheshwari: Construction costs were already incurred and they were just repaid.

Aditya Mongia: Just last question from my side. This is more on the Container segment. Given kind of the motivation and growth happening for us and for the West Coast ports, do you envisage a scenario wherein it would be difficult to take price increases for FY2020? If, let us say, it kind of continues then maybe pressure on existing prices from here.

Karan Adani: No. All the contracts which we have signed in container are long term. So we do not foresee any pressure on pricing. In fact, we have actually increased our prices this year by almost 3%, 3.5% on per tonne basis.

Aditya Mongia: Got that. Those were my questions. Thanks a lot for your response.

Moderator: Thank you. The next question is from the line of Varun Mittal from Edelweiss. Please go ahead.

Swarnim Maheshwari: Good evening. This is Swarnim. Sir, two questions. So first is, when you look at the SEZ revenue this quarter it was just about Rs.13-odd Crores. I know it is not material in the overall scheme of things, but we were under the impression that when you look at the lease rental business, at least of about Rs.150 Crores to Rs.200-odd Crores, that is more of a regular monthly kind of income, but that is not getting reflected.

Karan Adani: It is generally per year. So it is just a matter of timing.

Swarnim Maheshwari: So the lease rental part, I mean that will be...

Karan Adani: It is an annual lease rental. It is not a monthly lease rental.

Swarnim Maheshwari: Okay. So would not that accrue every month or like that would be just booked at the end of the year, is it?

Karan Adani: No. It depends on contract to contract when we have signed the contracts with those unit holders. So it is linked to that. It is not linked to a particular at the start of the financial year. It is more of when the contracts were signed.

Swarnim Maheshwari: Okay. All right. Then my second question is, Sir, was there any impact of Ind-As 116 over there in this quarter?

Deepak Maheshwari: There was an impact. So what we have done Ind-As 116 has impact on depreciation. So depreciation has gone up by Rs.11 Crores and some portion has gone into finance costs. So to that estimate, EBITDA has gone up, yes.

Swarnim Maheshwari: I am sorry; EBITDA has gone up.

Deepak Maheshwari: So we have the Ind-As impact is going down. So Rs 11 Crores is in depreciation and Rs.7 Crores in interest cost. So Rs.18 Crores EBITDA has gone up over the quarter.

Swarnim Maheshwari: Not meaningful as such. Fair enough Sir. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from Prateek Kumar from Antique Stockbroking Limited. Please go ahead.

Prateek Kumar: Good evening Sir. Thanks for the opportunity. This tipping of transshipment volumes, which is seen at Mundra Port so is it something related to industry or is this port-specific, company-specific?

Karan Adani: It is mainly industry related and it was realigning their services. So it is mainly because of that.

Prateek Kumar: I am sorry; I did not get you.

Karan Adani: So it is not port specific, it was shipping line specific. Most of the transshipment at Mundra Port is done by MSC Shipping Line. So they were realigning their services and because of that, their transshipment volume has dropped, which we expect that to come up in Q2 and Q3.

Prateek Kumar: Regarding this SEZ income, which you said regarding the sale of Mundra LNG assets during the year. You said Rs.700 Crores related to that income you are expecting. So there is nothing we are expecting from Dhamra LNG LPG assets this year?

Karan Adani: No, not this year.

Prateek Kumar: But there was this joint venture, which has been formed, which is also been mentioned in annual report where Gopal has invested some money already in this year. So that project is not progressing? Or the construction is back?

Karan Adani: Dhamra LNG is a three-year project. So it is an issue of timing. So we do not expect this year any income to come out of Dhamra LNG. It is purely milestone based. There are certain milestones that we have to achieve for us to recognize that income and for that to come from the JV to APL.

Prateek Kumar: Regarding the CT2 or T2 expansion at Mundra, which, phase I, we said expected by 2019, by 0.5 million. When is this remaining 0.7 in Phase 2 expected?

Karan Adani: That will happen next year. We want to start with Phase 1. We want to fill it up to almost 65%, 70% before we go into an expansion.

Prateek Kumar: Just one question on this. You mentioned about HMEL contract in Mundra Ports. Sir, can you elaborate so this will be counted in other cargo?

Karan Adani: Yes. So this is in liquid cargo. It is basically naphtha export that HEML does from their Bathinda refinery, which comes by rail into Mundra Port and it gets exported. The average export per year is around 250000 tonnes is what we are expecting.

Prateek Kumar: This will give this kind of volume in the other is cargo, which is like liquid cargo at Mundra?

Karan Adani: Yes, that is it. Yes.

Prateek Kumar: That is, it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Good evening Sir. Sir, on the Vizhinjam Phase 1, could you say what is the completed cost at the end of Phase 1 and eventually, what will the cost be?

Deepak Maheshwari: It is hard to give the Phase 1 cost, but the total cost of Vizhinjam is around Rs.4000 Crores and which includes the viability gap funding that we will get from the government.

Ashish Shah: Right and in terms of the timing, the Phase 1 and Phase 2 would be, what, like a year apart?

Karan Adani: Yes. It will be a year apart.

Ashish Shah: But that has not changed. The Rs. 4,000 Crores basically, what I was meaning to ask is that despite the delay, there seems to be have change in the cost?

Karan Adani: No. No. There is no cost escalation, which has happened.

Ashish Shah: As of now, what percentage of this cost would have been done?

Karan Adani: Mainly, the cost has gone into the pre-quarter which is again a funded work. And in terms of the non-funded works, we have already placed the order for the equipment and the jetty is almost done but as you know, the jetty equipments are running on LCs, since it is a trade credit. So it does not show on our books in terms of large capex right now.

Ashish Shah: Sir, on the Mundra LNG side, I get an impression I mean the LNG terminal has been ready for ready for probably over a year now, but we still do get volumes and obviously, we did say that later this year, we will start getting some volumes, about 0.5 million tonne. So why so much delay in getting volumes and revenues from this asset?

Karan Adani: So there was a dispute over there, which we have sorted out with the JV company, which was mainly on the income that on the common infrastructure that the port had developed for the terminal. So we are expecting that I mean, we have closed that issue and that is why we are very confident now that the volumes will start flowing and confident on the income that we have suggested.

Ashish Shah: Sir, in this settlement of dispute, have you had to accept some sort of a lower compensation or this is what we had initially told?

Karan Adani: This is what we had initially thought.

Ashish Shah: That is, it from my side. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, that was the last question. I will now hand the conference over to Devesh Agarwal for closing comments.

Devesh Agarwal: Thank you, everyone, for joining in today. I also thank the management for giving us an opportunity to host the call. Karan, would you like to add any closing remarks?

Karan Adani: Thank you so much, everybody, for your time. Thank you for your support. We are always there. If you have any more questions. Our team is always there to answer further questions. Thank you.

Deepak Maheshwari: Thank you very much.

Moderator: Thank you very much. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.